

Message Text

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ACTION EB-07

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R 031740Z DEC 76

FM AMEMBASSY MONTEVIKAO

TO SECSTATE WASHDC 2739

INFO AMEMBASSY BUENOS AIRES

AMEMBASSY ASUNCION

AMEMBASSY SANTIAGO

AMEMBASSY LA PAZ

AMCONSUL RIO DE JANEIRO

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E.O. 11652: N/A

TAGS: EFIN, UY

SUBJECT: REPORT ON IMF MISSION CONSULTATION IN URUGUAY

SUMMARY.

1. AN IMF CONSULTATION MISSION, HEADED BY MARCELLO CAIOLA, HAS RECENTLY COMPLETED A TWO-WEEK VISIT TO URUGUAY. THE PURPOSE OF THE MISSION WAS TO MONITOR PERFORMANCE FOR THE CURRENT STANDBY AGREEMENT (AUG 1976-AUG 1977) AND TO NEGOTIATE TARGETS FOR THE REMAINING MONTHS OF THE AGREEMENT. IN A BRIEFING FOR THE AID REP, CAIOLA TERMED GOU PERFORMAMCE EXCELLENT AND ATTRIBUTED THIS TO A COMBINATION OF HARD WORK, SOUND MANAGEMENT AND GOOD LUCK (IMPROVEMENT IN EXTERNAL MARKET CONDITIONS).

2. SPECIFIC PERFORMANCE FACTORS WERE EVALUATED AS FOLLOWS:

A. FISCAL PERFORMANCE -- THE 1976 TARGET WAS TO LIMIT THE FISCAL DEFICIT TO 13.5 PERCENT OF EXPENDITURES. CURRENT PROJECTION IS THAT THE DEFICIT WILL BE ABOUT 16 PERCENT. THIS IMB IS NEGOTIATING FOR A 1977 TARGET OF 12-13 PERCENT. THIS IS THE FIRST TIME THE LIMITED OFFICIAL USE

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GOU MET AN IMF FISCAL DEFICIT TARGET. THIS PERFORMANCE REFLECTS

DILIGENT GOU EFFORTS TO INCREASE TAX COLLECTION OF THE VALUE ADDED (IVA) AND LAND PRODUCTIVITY TAX (IMPROME).

B. BALANCE OF PAYMENTS -- AFTER A LOSS OF INTERNATIONAL RESERVES IN 1974 OF \$60 MILLION AND IN 1975 OF \$79 MILLION, IT IS CURRENTLY PROJECTED THAT THE CENTRAL BANK WILL INCREASE ITS RESERVES IN 1976 BY \$85 MILLION AS AGAINST AN IMF STANDBY TARGET FOR 1976 OF A LOSS OF RESERVES OF \$20 MILLION. THIS OUTSTANDING PERFORMANCE IS ATTRIBUTED INTER ALIA TO A BOOM IN NON-TRADITIONAL EXPORTS, A MODERATION OF IMPORT DEMAND INDUCED BY TIGHTER CREDIT POLICY, AND A CONTINUING INFLOW OF FOREIGN CAPITAL. AT THE MOMENT, THE NEW RESERVES OF THE URUGUAY MONETARY AUTHORITY ARE POSITIVE FOR THE FIRST TIME SINCE DECEMBER 1973.

C. INFLATION -- THE 1976 INFLATION RATE IS CURRENTLY PROJECTED AT 41 PERCENT OF SLIGHTLY ABOVE THE 38 PERCENT TARGET INCLUDED IN MFA THE STANDBY. THE IMF IS ATTEMPTING TO NEGOTIATE A 1977 INFLATION TARGET OF 30 PERCENT OR LESS.

D. CREDIT EXPANSION -- NET CREDIT EXPANSION WAS SUBSTANTIALLY BELOW THE CEILING. THE EXPANSION WHICH DID TAKE PLACE WAS FINANCED BY GENUINE FINANCIAL RESOURCES.

E. DEBT PICTURE -- THE EXTERNAL DEBT, RECENTLY ANNOUNCED BY CENTRAL BANK PRESIDENT GIL DIAZ, AS AMOUNTING TO \$1,134 MILLION, IS CONSIDERED BY THE IMF TEAM TO BE QUITE MANAGEABLE AND TO HAVE A GOOD MATURITY PROFILE.

F. EXCHANGE RATES -- IMF TEAM CONSIDERS THE PRESENT COMMERCIAL RATE, NP3.95 PER DOLLAR, TO BE QUITE FAIR CONSIDERING THE WAY NON-TRADITIONAL EXPORTS ARE MOVING. THE FINANCIAL RATE FLOATS ACCORDING TO SUPPLY AND DEMAND WITH ONLY OCCASIONAL CENTRAL BANK INTERVENTION TO STABILIZE THE MARKET AS MAY BE NECESSARY DURING SPECULATIVE PERIODS.

3. COMMENT: THE IMF TEAM'S HIGHLY OPTIMISTIC REPORT ON STANDBY PERFORMANCE CONFIRMS THE GENERAL IMPRESSION OF THE BANKS, THE PRIVATE SECTOR, AND THIS EMBASSY THAT 1976 HAS BEEN AN EXCEPTIONALLY GOOD YEAR ECONOMICALLY FOR URUGUAY. THIS PERFORMANCE, WHEN ONE RECALLS THE DIRE ECONOMIC STRAITS URUGUAY FOUND ITSELF IN DUR KG 1974 AND 1975 AFTER THE OIL PRICE RISE AND COMMON MARKET MEAT EMBARGO, STANDS OUT AS A MONUMENT TO THE ENLIGHTENED AND COHERENT ECONOMIC POLICY LEADERSHIP PROVIDED BY THE FORMER ECONOMY MINISTER VEGH VILLEGAS. THAT VEGH'S ECONOMIC POLICY IS BEING LIMITED OFFICIAL USE

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CONTINUED BY HIS PROTEGES -- ECONOMY MINISTER ARISMENDI AND CENTRAL BANK PRESIDENT GIL DIAZ -- IS GENERALLY RECOGNIZED AND HAS SERVED TO RESTORE CONFIDENCE AFTER VEGH'S RESIGNATION LAST AUGUST. SUCH CONFIDENCE IS DEMONSTRATED BY THE SIGNIFICANT INCREASE IN BANK DEPOSITS DURING 1976 IN BOTH DOLLARS AND PESOS FAR BEYOND IMF EXPECTATIONS. WHETHER THE GOU CAN TAKE ADVANTAGE ON THESE FAVORABLE ECONOMIC CIRCUMSTANCES TO MOVE FORWARD WITH ESSENTIAL STRUCTURAL CHANGES IN KEY PRODUCTIVE SECTORS (REDUCING PROTECTION TO THE

INDUCTRIAL SECTOR AND LIBERALIZING IMPORTS), IMPROVE EFFICIENCY
OF THE SOCIAL SECURITY SYSTEM AND STATE ENTERPRISES, ETC., DEPENDS
ULTIMATELY ON POLITICAL STABILITY AND THE ABILITY OF THE GOU COL-
LEGIAL LEADERSHIP TO ARRIVE AT A CONSENSUS ON KEY ECONOMIC ISSUES.
SINCE THE IMF TEAM FORECASTS ONLY 2 OR 3 YEARS AHEAD OF FAVORABLE
WORLD MARKET CONDITIONS FOR URUGUAYAN EXPORTS, IT IS IMPORTANT THAT
THE GOU NOT WASTE THIS OPPORTUNE SET OF CIRCUMSTANCES TO COMPLETE
THE ESSENTIAL DEVELOPMENT TASKS IN ITS STABILIZATION/DEVELOPMENT
PROGRAM.
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